



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
MAGOFFIN COUNTY CLERK**

Calendar Year 1999

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flannery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Paul Hudson Slayer, Magoffin County Judge/Executive
Honorable Haden Bryan Arnett, Magoffin County Clerk
Members of the Magoffin County Fiscal Court

The enclosed report prepared by Tamara L. Rice, Certified Public Accountant, presents the statement of receipts, disbursements, and excess fees of the County Clerk of Magoffin County, Kentucky, as of December 31, 1999.

We engaged Tamara L. Rice, CPA, to perform the financial audit of this statement. We worked closely with Ms Rice during our report review process; the resulting audit comports with our reporting format. As part of the audit, Tamara L. Rice, CPA, evaluated the Magoffin County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

**AUDIT EXAMINATION OF THE
MAGOFFIN COUNTY CLERK**

Calendar Year 1999

**TAMARA L. RICE
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EXECUTIVE SUMMARY
MAGOFFIN COUNTY
H. B. ARNETT, COUNTY CLERK
Calendar Year 1999

On January 23, 2001 fieldwork was completed on 1999 Magoffin County Clerk Fee Audit. An unqualified opinion was rendered on the financial statements. Two reportable conditions relating to the audit of the financial statements was reported.

Deposits

The Clerk's deposits were fully insured and collateralized as of December 31, 1999 but was not evidenced by a written agreement.

Excess Fees:

Excess fees in the amount of \$4,454 were turned over to the County Treasurer and accepted by the Fiscal Court on February 17, 2000. An additional \$2,149 was turned over on January 23, 2001.

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To the People of Kentucky
Honorable Paul E. Patton, Governor
Kevin Flanery, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Paul Hudson Salyer, County Judge/Executive
Honorable H. B. Arnett, Magoffin County Clerk
Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Magoffin County Kentucky, for the year ended December 31, 1999. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 1999, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Kevin Flanery, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Paul Hudson Salyer, County Judge/Executive
Honorable H. B. Arnett, Magoffin County Clerk
Members of the Magoffin County Fiscal Court

Based on the results of our audit, we have presented a comments and recommendations, included herein, which discusses the following area of noncompliance:

- The County Clerk Should Have A Written Agreement To Protect Deposits
- The County Clerk Should Have An Adequate Segregation Of Duties

In accordance with Government Auditing Standards, we have also issued a report dated January 23, 2001, on our consideration of the County Clerk's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink that reads "Tamara L. Rice". The signature is written in a cursive, flowing style.

Tamara L. Rice
Certified Public Accountant

Audit fieldwork completed -
January 23, 2001

MAGOFFIN COUNTY
H.B. ARNETT, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1999

Receipts

State Fees For Services		\$	6,437
Fiscal Court			19,572
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	350,849	
Usage Tax		587,943	
Tangible Personal Property Tax		576,731	
Licenses-			
Marriage		6,141	
Deed Transfer Tax		8,720	
Delinquent Tax		<u>105,390</u>	1,635,774
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	6,081	
Real Estate Mortgages		3,589	
Chattel Mortgages and Financing Statements		45,603	
Powers of Attorney		525	
All Other Recordings		6,793	
Charges for Other Services-			
Copywork		<u>733</u>	63,324
Other:			
Refunds			6,180
Interest Earned			<u>1,904</u>
Gross Receipts Carried Forward		\$	1,733,191

MAGOFFIN COUNTY
H.B. ARNETT, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 1999
(Continued)

Gross Receipts Brought Forward \$ 1,733,191

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 280,123

Usage Tax 577,892

Tangible Personal Property Tax 209,365

Licenses-

Delinquent Tax 11,593

Legal Process Tax 12,410 \$ 1,091,383

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 65,432

Delinquent Tax 18,842

Deed Transfer Tax 8,284 92,558

Payments to Other Districts:

Tangible Personal Property Tax \$ 278,865

Delinquent Tax 45,043 323,908

Payments to Sheriff 3,239

Payments to County Attorney 17,726

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies Salaries \$ 71,176

Employee Benefits-

Employer's Share Social Security 9,647

Employer's Share Retirement 9,175

Employer's Paid Health Insurance 11,925

Contracted Services-

Printing and Binding 2,105

Supplies and Materials-

Office Supplies 7,086

MAGOFFIN COUNTY
H.B. ARNETT, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 1999
(Continued)

Disbursements (Continued)

Other Charges-			
Miscellaneous	\$	23,541	
Capital Outlay-			
Office Equipment		<u>1,684</u>	<u>\$ 136,339</u>
Total Disbursements			<u>\$ 1,665,153</u>
Net Receipts			\$ 68,038
Less: Statutory Maximum			<u>57,765</u>
Excess Fees			\$ 10,273
Less: Expense Allowance			<u>3,600</u>
Excess Fees Due County for Calendar Year 1999			\$ 6,673
Payments to County Treasurer- February 17, 2000	\$	4,544	
January 23, 2001		<u>2,129</u>	<u>6,673</u>
Balance Due at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statement.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employee Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement System. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1999
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The depository institution has made such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the County Clerk.

MAGOFFIN COUNTY
H.B. ARNETT, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

Calendar Year 1999

STATE LAWS AND REGULATIONS:

The County Clerk Should Have A Written Agreement To Protect Deposits

The County Clerk maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The County Clerk had a bank balance of \$220,374; FDIC insurance of \$100,000; and securities pledged of \$200,000 as of April 9, 1999. Even though the County Clerk obtained pledged securities of \$200,000, the pledge was not evidenced by a written agreement. We recommend the County Clerk enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Clerk's Response: We will address this issue.

The County Clerk Should Have An Adequate Segregation Of Duties

We concluded that the internal control structure lacks a proper segregation of duties. Due to the entity's diversity of operations, small size and budget restrictions, there is limited staff size, which prevents an adequate segregation of duties. The Clerk has statutory authority to assume the role of custodian of monetary assets as well as recorder of transactions and preparer of financial statements. However, the lack of segregation of duties is hereby noted as a reportable condition. We recommend the County Clerk institute compensating controls to offset the lack of segregation of duties.

County Clerk's Response: Management understands this issue..

PRIOR YEAR:

The County Clerk Should Have A Written Agreement To Protect Deposits

As stated above this situation was not corrected during calendar year 1999.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Honorable Paul Hudson Salyer, County Judge/ Executive
Honorable H. B. Arnett, Magoffin County Clerk
Members of the Magoffin County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Magoffin County Clerk as of December 31, 1999, and have issued our report thereon dated January 23, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Magoffin County Clerk's financial statement as of December 31, 1999, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Magoffin County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement.

We concluded that the internal control structure lacks a proper segregation of duties. Due to the entity's diversity of operations, small size and budget restrictions, there is limited staff size, which prevents an adequate segregation of duties. The Clerk has statutory authority to assume the role of custodian of monetary assets as well as recorder of transactions and preparer of financial statements. However, the lack of segregation of duties is hereby noted as a reportable condition.

Honorable Paul Hudson Salyer, County Judge/ Executive
Honorable H. B. Arnett, Magoffin County Clerk
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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the lack of adequate segregation of duties to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink that reads "Tamara L. Rice". The signature is written in a cursive, flowing style.

Tamara L. Rice
Certified Public Accountant

Audit fieldwork completed -
January 23, 2001

